

California Public Employees' Retirement System
Board of Administration

STATEMENT OF GOVERNANCE PRINCIPLES

October, 2001

(Rev. September, 2006)

Excerpt from Section I – The Board's Role

I. The Board's Role

All authority granted by the Constitution and statutes to the Board of Administration is retained, except as delegated ~~by specific resolutions as provided herein~~. ~~Consistent with its fiduciary role as Trustee of the Fund, the~~ The Board's principal role is to ensure that CalPERS ~~is and its programs are~~ appropriately governed and managed. With the overriding goal of protecting Fund assets, the Board's role is to:

...

G. Delegation

~~The Board has the legal ability and fiduciary responsibility to delegate certain activities and responsibilities to CalPERS staff or contractors. However, included within this fiduciary responsibility is the need for the Board to (a) select delegates with care, (b) define delegated responsibilities clearly, (c) monitor delegate performance, and (d) take corrective action when appropriate. To fulfill these duties, the Board will strive to follow the following delegation procedures.~~

- ~~1. *General Fiduciary Standards.* The Board shall make all delegation decisions solely in the interest of, and for the exclusive purposes of providing benefits to, participants and their beneficiaries, minimizing employer contributions to the System, and defraying reasonable expenses of administering the System, with the duty to participants and their beneficiaries taking precedence over all other duties. The Board shall also make delegation decisions exercising the care, skill, prudence, and diligence under the circumstances then prevailing that a prudent person acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of a like character and with like aims.~~ Definition. A delegation is the grant of authority from one person or entity (such as the Board or a committee of the Board) with the power to act to another person or entity. A delegation of authority should be distinguished from providing direction, the former being a grant of power, and the latter being a more specific command or order to carry out a particular act.
- ~~2. *Clarity and Specificity.* The Board will clearly and specifically identify each action that includes, in whole or in part, a delegation of responsibility from the Board to another. The Board will also clearly and specifically describe for the record the~~

- ~~—scope of the responsibility that is being delegated, to whom, and the extent to which the Board responsibility continues (including monitoring).~~ Delegation of Board Functions. While, as a general rule, a trustee or other fiduciary should not delegate to others responsibilities that he or she ought personally to perform, it is appropriate to delegate tasks that the individual cannot reasonably himself or herself perform. The members of the Board, themselves, cannot reasonably perform all acts necessary to operate CalPERS; they must rely upon CalPERS staff and contractors to carry out many activities and functions. Accordingly, the Board may delegate responsibilities to committees of its members, to the Chief Executive Officer, and to CalPERS contractors.
3. Standards for Delegation. Delegations must be prudent and consistent with the Board's fiduciary responsibilities. The Board and the Chief Executive Officer must (a) select delegates with care, (b) define delegated responsibilities clearly, (c) monitor the performance of their respective delegates, and (d) take corrective action when appropriate.
4. Sub-Delegation. When the Board has delegated a responsibility to the Chief Executive Officer, he or she is authorized to delegate to his or her subordinates any portion or all of that responsibility unless the Board has required the Chief Executive Officer to act personally. Further, any delegation of responsibilities by the Board or its committees to the General Counsel, the Chief Actuary, the Chief Investment Officer or any other CalPERS staff member or to contractors shall be deemed to be a delegation by the Board directly to the Chief Executive Officer who then sub-delegated such responsibilities to such individual.
5. Finality. A delegatee may take final action as to any responsibilities delegated to him or her except where the delegating party requires the delegatee to first secure the delegating party's review and ratification of the delegatee's chosen course of action. Where a delegation does not require the delegating party's review and ratification prior to the delegatee taking action, the delegatee has authority to act finally, and will be responsible and accountable for his or her actions.
6. Content of Delegations. Delegations should be clear and specific as to (a) what specific authority, responsibility or action is being delegated and to whom, (b) whether sub-delegation is permitted, and (c) whether the delegatee is authorized to act finally or whether action by the delegatee is subject to review and ratification or reversal by the grantor of the delegation.
- ~~3.7.~~ Formality. The Board specifically finds that, although clarity and specificity are essential to all parties understanding the scope of delegated authority, the Board need not in all cases execute a formal delegation resolution. The form in which the Board takes action (that includes delegation) must vary depending upon the circumstances. However, all Board action that includes delegation of authority to another must All delegations should be memorialized in writing (e.g., through minutes, resolution, etc.) either before or after the delegation.